

GENERAL ASSEMBLY OF NORTH CAROLINA

Session 2005

Legislative Actuarial Note

RETIREMENT

BILL NUMBER: House Bill 1073 (First Edition)
SHORT TITLE: Extend Sunset/Retired Teachers Return to Work.
SPONSOR(S): Representatives McLawhorn and Rapp

FUNDS AFFECTED: General Fund, Highway Fund, and Receipt Funds

SYSTEM OR PROGRAM AFFECTED: Teachers' and State Employees' Retirement System

EFFECTIVE DATE: June 30, 2005

BILL SUMMARY: The law now permits re-employment of retired public school employees to teach, allowing them to earn salary on the regular salary schedule without reducing their retirement benefits. This provision is scheduled to expire June 30, 2005. This bill extends the sunset on the provision to June 30, 2006 and requires that the Department of Public Instruction and the Office of State Personnel, in consultation with the Retirement Systems Division, to study the impact of removing the retiree earnings cap and evaluate the elimination of the earnings cap for all State employees and report the results of the study to the 2007 General Assembly.

ESTIMATED IMPACT:

Retirement System Actuary: Mellon estimates the cost to be 0.03% of the payroll of all members of the Teachers' and State Employees' Retirement System.

Table with 6 columns: Fund Type, 2005-06, 2006-07, 2007-08, 2008-09, 2009-10. Rows include General Fund, Highway Fund, Receipt Funds, and TOTAL COST.

General Assembly Actuary: Hartman & Associates estimates the cost to be 0.04% of the payroll of all members of the Teachers' and State Employees' Retirement System.

Table with 6 columns: Fund Type, 2005-06, 2006-07, 2007-08, 2008-09, 2009-10. Rows include General Fund, Highway Fund, Receipt Funds, and TOTAL COST.

There are available gains of 0.47% of payroll in the Teachers' and State Employees' Retirement System to fund this sunset extension, without increasing the contribution rate.

## **ASSUMPTIONS AND METHODOLOGY**

### **Teachers' & State Employees' Retirement System**

The cost estimates of the System's Actuary are based on the employee data, actuarial assumptions and actuarial methods used to prepare the December 31, 2003 actuarial valuation of the fund. The data included 303,768 active members with an annual payroll of \$10.1 billion and 123,077 retired members in receipt of annual pensions totaling \$2.1 billion. Significant actuarial assumptions used include (a) an investment return rate of 7.25%, (b) salary increase rate of 6.25%, (c) the George B. Buck Mortality Tables for deaths in service and after retirement and (d) rates of separation from active service based on System experience. The actuarial cost method used was the entry age normal method with open-end unfunded accrued liability and a frozen unfunded liquidation period of nine years. Detailed information concerning these assumptions and methods is shown in the actuary's report, which is available upon request from Stanley Moore.

**SOURCES OF DATA:** System Actuary - Mellon  
General Assembly Actuary - Hartman & Associates, LLC

**TECHNICAL CONSIDERATIONS:** The estimated cost is determined by using the assumed rates of retirement versus the actual rates of retirement for members of this group.

**FISCAL RESEARCH DIVISION: (919) 733-4910.** The above information is provided in accordance with North Carolina General Statute 120-114 and applicable rules of the North Carolina Senate and House of Representatives.

**PREPARED BY: Stanley Moore**

**APPROVED BY:** James D. Johnson, Director  
Fiscal Research Division



**DATE:** April 25, 2005

**Signed Copy Located in the NCGA Principal Clerk's Offices**